

# NATIONAL CREDIT UNION ADMINISTRATION

# NCUA News

**BOARD ACTIONS MAY 8, 2000**

## Final Rule Issued on Privacy of Consumer Financial Information

By a 2 to 1 vote, the NCUA Board issued a final privacy rule, applicable to all federally insured credit unions, to meet the statutory requirements of the Gramm-Leach-Bliley Act.

The final rule requires credit unions to provide privacy policies and opt out notices to:

1. Consumers if the credit union shares their nonpublic personal information with nonaffiliated third parties; and
2. Members when establishing the member relationship and annually thereafter.

The privacy policy must state:

1. The categories of nonpublic personal information the credit union collects;

2. The categories of nonpublic personal information the credit union discloses; and
3. The categories of affiliates and nonaffiliated third parties the credit union discloses the information to.

While the final rule tracks the statutory requirements, many of the following provisions are based on the 99 comments received.

- Member replaces the term customer for credit unions, and for this rule will include certain nonmembers.
- Explanatory examples are included within the rule and sample disclosure clauses appear in the appendix.
- A compliance guide provides additional guidance.

**May 2000, Number 4**

### HIGHLIGHTS

News Briefs	2
Board Actions	3
Love Named RD	4
Predatory Lending	5
Conversations With America	6

- Statutory terms are clarified.
- While lengthy, the rule is written so it is easy to understand.

Part 716 of the R&Rs, Privacy of Consumer Financial Information, includes the following subparts:

**Subpart A** – Privacy and Opt Out Notices

**Subpart B** – Limits on Disclosures

**Subpart C** – Exceptions

**Subpart D** – Relation to other Laws;

This rule change will involve retaining staff, reprogramming computers, and budget changes. To allow credit unions ample time to prepare to meet the compliance requirements, while the effective date of the new rule is November 13, 2000, the compliance deadline is July 1, 2001.

NCUA joined other agencies in drafting the required regulation. However, the final credit union rule recognizes the unique circumstances of federally insured credit unions and their members.



April 25, 2000, London – Chairman Norman E. D'Amours with (from the left) Paul Walsh, board member of London Taxi Drivers Credit Union, Manager Andrew Rhys and Ralph Swoboda, CUNA Mutual executive, and consultant to the Association of British Credit Unions Limited. Chairman D'Amours visited several credit unions while in England in late April meeting with British credit union regulatory officials who will reciprocate with a visit to NCUA in June.

## News Briefs

### NCUA Earns Unqualified Opinions —

For the 15<sup>th</sup> consecutive year, the NCUSIF earned an unqualified audit opinion from an independent auditing firm. Deloitte & Touche rendered unqualified opinions for the 1999 financial statements of the Operating Fund, Share Insurance Fund, Central Liquidity Facility and the Community Development Credit Union Revolving Loan Program.

### ABA Challenge Dismissed —

Judge Colleen Kollar-Kotelly issued a series of Orders in late March supporting NCUA in the American Bankers Association challenge to NCUA's chartering rule IRPS 99-1. In early May, the ABA filed a stipulated dismissal, asking the court to dismiss the final unresolved portion of the case challenging charter conversions and expansions under NCUA's old chartering rule. Judge Kollar-Kotelly is expected to issue final judgment in NCUA's favor. Indications are the ABA will file an appeal to the Court's decision.

### Substantial Loan & Grant Demand —

Community Development Credit Union Revolving Loan demand was heavy in the

first quarter of 2000 – 13 loans totaled \$2.8 million – exceeding all loans granted in 1999. Technical assistance grant requests were also significant. At \$31,000 per month, requests outpace the fund's earning abilities.

**Incomplete Credit Reports** – NCUA recently released *Letter to Credit Unions 00-CU-01*, offering guidance to ensure that credit unions use sound credit risk management because there is evidence that relied upon consumer credit bureau information reporting is often incomplete.

**Yearend Statistics Available** – NCUA's 1999 Yearend Statistical Report is now available on the NCUA website at [www.ncua.gov/ref/Statistics/yearend99.pdf](http://www.ncua.gov/ref/Statistics/yearend99.pdf).

**Fair Lending** – NCUA staff is preparing an information briefing paper on fair lending that will be provided to all examiners and those credit unions concerned with fair lending issues.

**Letter to CUs Discussed** – NCUA *Letter 99-CU-12, Real Estate Lending and Balance Sheet Risk Management* was the topic of discussion at a recent NASCUS Conference in Calif., and it was the topic of a focus meeting sponsored by Fannie Mae in April. E&I will discuss the background and implementation of the letter at the CUNA Mutual CFO Conference in June.

**NCUSIF Equity and Activity** – At March 31, 2000, the NCUSIF equity level increased to 1.30 percent based on Dec. 31, 1999 insured shares of \$336.6 billion.

## Lessons Learned from the Year 2000 Project

The Year 2000 project was one of the most expensive, resource-intensive information technology challenges ever faced by the financial services industry. It posed a wide-based technology problem that had to be managed by more than technology experts. It transcended corporate boundaries and hierarchies and required organizations to work together to review information technology (IT) systems and business practices and develop a comprehensive strategy to address technology-related risks and business continuity plans.

The Year 2000 Project provided valuable lessons that can be applied to future projects, management processes and technology risk management. To reiterate the value of what was learned from the massive project, the Federal Financial Institution Examination Council identified ten characteristics as those possessed by the best-prepared institutions.

The NCUA, as an FFIEC member, encourages credit union management to conduct their own review of lessons learned from the Year 2000 effort and incorporate appropriate lessons in future technology risk management practices.

For details on lessons learned from Y2K, check out the FFIEC website at [http://www.ffiec.gov/y2k\\_lessons\\_learned.htm](http://www.ffiec.gov/y2k_lessons_learned.htm)

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

Robert E. Loftus, *Director,*  
*Office of Public and Congressional Affairs*  
Cherie Umbel, *Editor*  
Barbara Walker, *Graphics*

National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428  
[www.ncua.gov](http://www.ncua.gov)



March 8, 2000, Alexandria, Va., Hilton — Chairman Norman E. D'Amours with John Koskinen, Chairman of the President's Council on the Year 2000 Conversion, Board Member Yolanda Wheat and Board Member Dennis Dollar at a thank you dinner for NCUA Y2K headquarters workers and regional representatives.

## BOARD ACTIONS

APRIL 13, 2000

### Secondary Capital in Low-Income CUs Must Meet Prompt Corrective Action Requirements

To conform with prompt corrective action (PCA) requirements, the NCUA Board issued a final rule amending Section 701.34 of the *NCUA Rules and Regulations* that stipulates NCUA has discretion, under certain circumstances, to prohibit a low-income designated credit union from paying principal, dividends or interest on secondary capital accounts established after August 7, 2000.

### Electronic Periodic Statements Approved

The NCUA Board adopted final rule, Part 707, allowing federal credit unions to electronically deliver periodic statement disclosures if the member agrees to this form of delivery. The new rule is effective 30 days after publication in the Federal Register.

### Board Overturns Denial and Grants Charter Expansion

The NCUA Board overturned the Region II Director's decision and voted to grant a charter expansion permitting \$25.7 million CACL Federal Credit Union of Pottsville, Pa., to include an associational group, the Pottsville Club, within its field of membership.

## BOARD ACTIONS

MARCH 16, 2000

### Board Seeks Comments on RegFlex

The NCUA Board voted unanimously to issue an advance notice of proposed rulemaking (ANPR) seeking comments on a proposal developed by Board Member Dennis Dollar that would permit well-

capitalized credit unions with consistently strong CAMEL ratings to be exempt, in whole or part, from certain NCUA regulations not specifically required by statute or tied to credit union safety and soundness. An ANPR is designed to solicit additional comments from the credit union community before a proposed rule is considered.

Under the RegFlex ANPR, credit unions are asked whether NCUA should reduce regulatory burden by establishing a policy to exempt qualifying credit unions, based on strong records of safety and soundness and effective risk management, from all or part of designated regulations. To meet the trigger level for inclusion in RegFlex, federal credit unions must have CAMEL ratings of 1 or 2 and net worth of 9 percent or more for two consecutive years, and management must have been rated a 1 or 2.

Chairman Norman E. D'Amours commended Mr. Dollar for his positive effort and the work put into the RegFlex proposal. Chairman D'Amours recommended, and the Board agreed, that the proposal seek comment on how RegFlex could be utilized to extend service to low-income and underserved areas and whether service to these areas should be an eligibility requirement.

Mr. Dollar said, "I am pleased the Board chose to put the RegFlex concept out for comment from America's credit unions. We can learn a lot by listening to those we regulate about how a more flexible regulatory approach for well-managed, safe and sound credit unions can help foster innovation and enhanced member service for folks from all walks of life."

Board Member Yolanda Wheat encouraged all credit unions to study the proposal carefully and provide input on how it might be revised to help credit unions better serve their members. "I am also interested in learning from credit unions which, if any, of the regulatory relief recommendations in the RegFlex proposal should be applied to all credit unions, not just those which meet certain operational criteria," Wheat said.

Regulations identified as those where flexibility might be granted are:

1. Section 701.36 — FCU Ownership of Fixed Assets.
2. Part 703 — Investment and Deposit Activities (Various provisions).

3. Section 701.25—Charitable Donations.
4. Part 722.3 (a)(1)—Appraisals.
5. Section 701.32(b) and (c)—Payment on Shares by Public Unit and Non-members.
6. Section 701.23—Purchase, Sale and Pledge of Eligible Obligations.

As proposed, NCUA regional directors would have sole discretion to revoke expanded authority, in whole, or in part at any time. The RegFlex ANPR was issued with a 60-day comment period that expires May 21, 2000.

### NCUA 2000 Annual Plan Approved

The NCUA Board approved NCUA's Year 2000 Annual Plan as the first of a multi-year Strategic Plan approved last month that established quantifiable performance goals, defined annual performance levels and described operational processes and resources required to meet our goals.

The first year focus includes establishing systems, policies, and structure to support the program initiatives that will be achieved in later years. No budget increase is associated with the 2000 Annual Plan.

### Written Overdraft Policy Can Cover Account Deficits

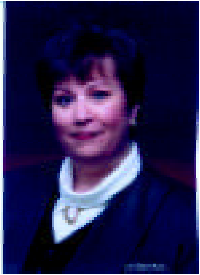
To ensure parity with fellow financial institutions, the NCUA Board approved final amendments to lending regulation Section 701.21 (c)(3) permitting federal credit unions to advance money to members to cover account deficits without a member's credit application on file if the credit union has a written overdraft policy.

### South Dakota Corporate Gains Regional FOM

The NCUA Board approved a regional field of membership for South Dakota Corporate FCU giving the corporate the ability to expand service to include 13 mid-western states.

Votes are unanimous unless otherwise noted

# Melinda Love Named Chicago Regional Director



Melinda Love is director of the Chicago, Region IV office effective May 21, 2000. As regional director, Love oversees federal credit union chartering and examination and insurance related

supervision for federally insured credit unions in Illinois, Indiana, Michigan, Missouri, Ohio, West Virginia, and Wisconsin.

Prior to this appointment, since August 1998 Love was NCUA's deputy executive director (DED) assisting the executive director carry out leadership responsibilities. Serving as principal advisor to the executive director, Love influenced program operations and the formulation and development of management policies and procedures.

Love was deputy director of the Office of Examination and Insurance in Alexandria, Va., before being appointed DED.

Melinda Love began her NCUA career in 1986 as an examiner in Northern

California. In Region VI, she held positions of principal examiner, problem case officer, supervision analyst, and supervisory examiner. Love participated in NCUA's management development program in the early 1990s and she also was acting director of Special Actions in Region VI.

Prior to joining NCUA, Melinda was a manager with the Department of Facilities Management at the University of California, Berkeley, and an accounting manager for the Elk Grove Unified School District. Love also worked as an auditor with the University of California, Berkeley, the USDA Office of Inspector General, and SRI International (formerly Stanford Research Institute). Her professional career began as an accountant with NASA, Ames Research Center.

Melinda Love holds an accounting degree from San Francisco State University and a MBA from St. Mary's College. She is a certified internal auditor and a member of the Institute of Internal Auditors. Through this organization, she participated in the Citizen's Ambassador Program's 1991 accounting and auditing delegation to Moscow, St. Petersburg, and Pyatagorsk, Russia.

## Upcoming Regulatory Actions

- Leasing – Final, new Part 714 is expected to be considered in May.
- Insurance and Group Purchasing – The comment period closed in February on a change to Part 721. Final consideration is not yet scheduled.
- Share Insurance – Final changes to Part 745 clarifying coverage and providing parity with FDIC insurance provisions will be considered in May.
- Corporate CUs – Proposed amendments to Part 704 expected in July.
- Prompt Corrective Action – The comment period closed April 18 on this amendment to Part 702 defining a complex credit union.
- Fair Credit Reporting – Upcoming proposal expected.
- Privacy Act Regulation – Proposed change to Part 792 to update exempt systems of records is scheduled for June.
- RegFlex – Proposed Part 742 rule is expected in July.
- Records Preservation – Proposal updating time frame to be consistent with federal statutory requirements expected this fall.

## NCUA's 1999 Performance Report

NCUA reported to Congress that the agency met all but two and part of a third of its 15 performance goals established for 1999. The performance goals and their outcomes for 1999 follow:

Performance Goals	Outcomes
FICUs ready for Y2K	100%
FICUs able to meet Y2K liquidity demands	100%
Reduce to under 322 the number of FICUs with net capital < 6%	Yes
Drop to under 199 the number of FICUs with net capital < 6% and return on assets < 0.5%	Yes
96% of FCU examinations appraised met or exceeded standards	Yes
Maintain a 4.4% average response rate to customer survey	Yes
Corporate credit unions meet capital level requirements	100%
Over 60% of new regulations have favorable/neutral response	100%
National Credit Union Share Insurance Fund has 1.3% equity ratio	Yes
Reduce LICUs with capital < 6% to under 65	No
Increase number of LICUs to over 524	Yes
Increase potential LICU members to over 8.5 million	Yes
Increase number of FCU members to over 45.1 million	No
Maintain consumer regulation compliance at 97%	Yes
Increase complaints responded to within 10 days to 95%	No
Increase complaints resolved within 90 days to over 90%	Yes

### Legend

FCU federal credit union  
FICU federal insured credit union  
LICU low-income credit union



Visit NCUA's extensive web site to get news and numbers about NCUA and credit unions. The web address is [www.ncua.gov](http://www.ncua.gov).



# D'Amours Encourages a Unified Front Combating All Forms of Predatory Lending

Chairman Norman E. D'Amours is urging his fellow financial institution regulators to place equal emphasis on seeking to curb non-mortgage as well as mortgage related predatory lending. Up to this point, the efforts of the Interagency Task Force on Predatory Lending, of which NCUA is a member, were "understandably, primarily focused on predatory mortgage lending," D'Amours noted.

In the April letter to Federal Reserve Board Governor Edward Gramlich and copied to fellow task force members, D'Amours said that while predatory mortgage lending has "recently caught our attention, abusive payday and other predatory lenders are preventing countless numbers of working people from accumulating the assets that might one day qualify them for home ownership. People whose only financial equity lies in their paycheck, their car, or a small savings or checking account are also being aggressively targeted by predatory lenders. Their plight should be of equal concern to our interagency working group."

The D'Amours letter pointed to Congress' growing political support for action against predators and cited the bill by Rep. John LaFalce and 16 co-sponsors, H.R. 3823, which defines and prohibits predatory lending. Rep. LaFalce and Senator Paul Sarbanes are also sponsoring companion bills to restrict abusive predatory mortgage lending, H.R. 4250/S.2415.

While predatory mortgage lending is unquestionably an important part of the financial exploitation of vulnerable people, it may not be the major part, Chairman D'Amours noted. "I therefore recommend that we encourage our staff working group to intensify their focus on

payday lending and other forms of non-mortgage predatory lending," Chairman D'Amours said.

Federal Reserve Board Chairman Alan Greenspan mentioned the existence of the operating interagency working group formed to address predatory mortgage lending March 22, decrying those lenders who target "vulnerable segments of the population." He said it was the duty of policymakers to fight such inequities in order to ensure that the economic boom reaches more people.



*April 6, 2000 – Board Member Yolanda Townsend Wheat chats with (left to right) Jim McCormack, president/CEO of the Pennsylvania Credit Union League, Albert Tripodi, CEO, Beaver Valley FCU, and Margaret "Cookie" Yoder, CEO, Pittsburgh Catholic FCU, prior to addressing a joint chapter meeting with representatives of Pennsylvania credit unions from Pittsburgh, Allegheny-Kiski Valley, Beaver Valley, McKeesport and Monongahela Valley.*

*In her address, Board Member Wheat encouraged credit unions to continue to focus on providing access to credit union services, particularly for low-income and underserved communities. She noted that shared branching has not yet caught on within the credit union system, but shared branching may be the vehicle for credit unions to utilize in order to capitalize on economies of scale, expand services and minimize costs associated with proprietary branches.*

## ABOUT INVESTMENTS

### It Was Once the Best of Times...

What does it mean for credit unions when Alan Greenspan signals a round of future rate hikes in testimony before



Congress? A 7.3 percent growth rate in the economy in the fourth quarter of 1999 and 5.4 percent growth in the first quarter of 2000 point to continued economic resilience, despite the past five Fed rate in-

creases. Turmoil in the equities market has not made the Fed draw back. Indeed, the bond market is showing its support, as the 30-year Treasury dropped by 100 basis points until early April from a high of 6.75%. Inflationary concerns subsequently pushed the long bond up, but the yield curve is still steep out to 2 years and significantly inverted thereafter.

The investment question has to be separated from the asset/liability question. From the investment standpoint, there are concerns that any future inflationary signs may cause long-term rates to rise, despite the bond market's present support for the Fed. Productivity increases - once seen as preventing inflation - have been recast by Greenspan as having its own inflationary potential.

Of greater concern is the asset/liability management question. Mortgage rates have fallen from their February peak. But spreads to Treasuries are high, widening by 75 basis points in February before narrowing 25 basis points in late April. Mortgage portfolio values are increasingly at risk. Not just from pressure toward higher rates, but also from slower prepayments. Meanwhile, if short-term rates continue to rise, the yield of money market shares may soon be forced upward by competitive pressures, with an inevitable negative influence on net interest income.

## Conversations With America

**Who and What:** Board Member Dennis Dollar will address Massachusetts Credit Union CEOs.

**When:** Noon, Tuesday, May 30, 2000

**Where:** Newton Marriott, 2345 Commonwealth Ave., Newton, Mass.

**Why:** Participant feedback is solicited and considered on NCUA initiatives and policies such as privacy and RegFlex.

**Contact:** Kirk Cuevas for additional information at 703-518-6307 or [kcuevas@ncua.gov](mailto:kcuevas@ncua.gov)

**Who and What:** Board Member Yolanda Townsend Wheat will attend the annual meeting of the National Federation of Community Development Credit Unions (NFCUDUC).

**When:** June 8, 2000

**Where:** Marriott City Center, Denver, Colo.

**Why:** Participant feedback is encouraged on any NCUA policy or regulation under consideration.

**Contact:** Clifford Rosenthal of the NFCDCUs at (212) 809-1850, or Margaret Broadaway of Board Member Wheat's office at 703-518-6300 or [margeb@ncua.gov](mailto:margeb@ncua.gov)

**Who and What:** Board Member Dennis Dollar will attend the opening ceremony of the National Federation of Community Development Credit Unions annual meeting.

**When:** Thursday, June 8, 2000

**Where:** Marriott City Center, Denver, Colo.

**Why:** Participant feedback will be

solicited and considered on any NCUA initiative or policy.

**Contact:** Kirk Cuevas for additional information at 703-518-6306 or [kcuevas@ncua.gov](mailto:kcuevas@ncua.gov)

**Who and What:** Chairman Norman E. D'Amours will attend and address the annual meeting of the National Federation of Community Development Credit Unions.

**When:** Friday, June 9, 2000

**Where:** Marriott City Center, Denver, Colo.

**Why:** Participant feedback is encouraged on any NCUA policy or regulation under consideration.

**Contact:** Cherie Umbel in Public & Congressional Affairs for additional information at 703-518-6330 or [cumbel@ncua.gov](mailto:cumbel@ncua.gov)

**Who and What:** Board Member Dennis Dollar will hold an open forum with state and federal credit unions in Colorado to discuss RegFlex, prompt corrective action and other pertinent issues.

**When:** 10 a.m. to 2 p.m., Friday, June 9, 1999

**Where:** Holiday Inn, 505 Popes Bluff Trail, Colorado Springs, Colo.

**Why:** Participant feedback will be solicited and considered on NCUA initiatives and policies. A Q&A with participants is scheduled.

**Contact:** Kirk Cuevas for additional information at 703-518-6306 or [kcuevas@ncua.gov](mailto:kcuevas@ncua.gov)

## Board Member Dollar Holds Open Forum

Board Member Dennis Dollar hosted an open forum March 30 in New Orleans where he met with credit union representatives from Louisiana, Mississippi and Alabama to discuss credit union issues including prompt corrective action, field of membership and RegFlex.



Board Member Dollar and Clifton Lemelle, board Vice-President of Landry Parish Educational Association FCU, get acquainted before the forum begins.



NCUA Board Member Dennis Dollar discusses credit union issues with Ron Sevin, CEO of CUSA FCU; Debbie Wright, CEO of University FCU; and Rick Saizan, Treasurer of Geismar FCU during his open forum.

# NCUA News

National Credit Union  
Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

FIRST CLASS MAIL  
POSTAGE AND FEES PAID  
NCUA  
PERMIT No. G-88